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TAGS: [ECON](#) [EINV](#) [EIND](#) [ETRD](#) [BEXP](#) [AG](#)

SUBJECT: Algeria Economic Highlights

1. Oil Export Revenues expected to hit \$40 Billion
2. French Interest in Bank Privatization
3. Booming Mobile Phone Sector
4. Spanish Aquatia Selected for Desalination Plant
5. Algeria Among Least Transparent Countries
6. \$51 Billion Foreign Exchange Reserve
7. Algerian Purchasing Power Down by 7.9%

OIL EXPORT REVENUES COULD REACH \$40 BILLION

1. In an October 15 press conference, Minister of Mines and Energy Chakib Khelil declared that total oil export revenues reached \$32 billion at the end of September, while in 2004 total revenues were \$31.5 billion. He added that the total 2005 figure could reach \$40 billion if oil prices remained above \$50 per barrel, which was likely to be the case given the current market situation. Primary energy production rose by 104% to 136.2 million Tons of Oil Equivalent (TOE) in the first six months of 2005. Out of this global volume, the national petroleum company Sonatrach was solely responsible for producing 98.1 million TOE with the remainder (38.1 million) produced by the company's partners. Production for 2004 reached 35.8 million tons of crude oil and 89.7 billion cubic meters of natural gas. Export volume reached 78.9 million TOE, which represents 58% of production volumes. Minister Khelil highlighted several major investments projects, including a \$1.8 billion Sonatrach project in conjunction with BP and Statoil for the expansion of a gas field in In Amennas, a \$3 billion investment in an integrated Gassi Touil project, including the development of upstream reserves, and the construction of a 5.2 billion cubic meter per year natural gas liquefaction plant near Arzew.

FRENCH INTEREST IN BANK PRIVATIZATION

2. In the framework of public bank privatization, three international banks have bid to participate in the opening of the public bank, CPA (Credit Populaire d'Algerie). According to the French Magazine les Echos, the French bank BNP Paribas expressed interest in this operation, which should be finalized by end of 2006. Minister of Finance Mourad Medelci indicated that 51% of CPA's capital would be offered. This is the second attempt to privatize CPA. The first offering failed because of outstanding loans without payment guarantees and the government's offer at the time of only 49% opening of the capital.

BOOMING MOBILE PHONE SECTOR

3. Minister of New Technologies and Communication Information Boudjemaa Haichour presented the latest mobile phone sector figures in an October press conference. The growing sector has created roughly 50,000 jobs since the introduction of mobile telephony. Investments reached \$4 billion, with \$2 billion coming from the Egyptian company Djezzy and \$1 billion each from the public utility Mobilis and the Kuwaiti company Nedjma. The Market comprises 11 million subscribers, 3.8 million of whom subscribe to the long-standing operator Mobilis. Mobilis aims to have 5 million subscribers by end of 2005 and 8 million by 2009, which would represent 40% of the local market.

SPANISH SELECTED FOR DESALINATION PLANT

4. The Spanish group Inima Aquatia landed a contract October 17 for the construction, exploitation and maintenance of the seawater desalination unit in Mostaganem (western Algeria near Oran). The \$100 million plant is expected to have a capacity of 100,000 cubic meters of water daily at a price of \$0.73 (52 DA) per cubic meter of desalinated water. This plant is one of 10 desalination plants throughout the country anticipated in the government's five-year program.

ALGERIA AMONG THE LEAST TRANSPARENT COUNTRIES

5. The recently released report of Transparency International on corruption ranked Algeria among the least transparent countries in the world. Out of 159 countries,

Algeria ranked 97th, far behind neighboring Tunisia, which ranked 43rd and is considered one of the most transparent Arab countries. Morocco, another neighbor, was ranked 78th. The Anti-Corruption Algerian Association (AACC) saw no surprise in the rating and stated that the social and political situation prevailing in Algeria over the past years encouraged corruption at all levels, "and everything is done by the authorities for expanding such a plague". The Association criticized the anti-corruption government's speech saying that it aimed at dazzling international partners and settling accounts for power holders.

\$51 BILLION IN EXCHANGE RESERVES AS OF SEPTEMBER -----

16. While addressing the budget and finance committee at Parliament regarding the 2006 government budget, the Governor of the Bank of Algeria Mohamed Laksaci declared that exchange reserves as of the end of September were \$51.7 billion. He added that external debt decreased to \$17.8 billion from \$21.4 billion in 2004. The decrease of external debt resulted from high exchange reserves, anticipated payments, and improved debt management.

ALGERIANS' PURCHASING POWER DOWN BY 7.9% -----

17. According to a survey undertaken by the General Union for Algerian Workers (UGTA), purchasing power declined by 7.9% over the last two years. The survey revealed that the price of 164 targeted products and services increased significantly between 2003 and 2005. For a 7 member-family, food expenses increased by 5.9%, health expenses were up 13% (reflecting the cost of pharmaceuticals, since Algerians do not pay for public medical services), and budget items for leisure and culture increased by 8.2%. Only the clothing budget decreased (by 3.3%), mainly due to the growing availability at very low prices through the underground economy of imported products from China, Turkey and Syria. UGTA indicated that tariff increases on heating and cooking gas, electricity, water, transportation, health care and telecommunications in 2005 were not included in this survey. Inclusion of that data, according to the UGTA, would have worsened the result. The survey concluded that AD 24,790 (\$340) a month was essential for a family to live "normally".

ERDMAN